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SUBJECT: TURKISH INVESTMENTS IN EGYPT GROWING FAST

1. (SBU) Key points:

-Turkish investment in Egypt has more than tripled in recent years, and is expected to continue growing in the coming years.

-The favorable outlook by Turkish investors is driven by lower costs of doing business and Egypt's solid market access to the European Union, the United States, and countries in Africa and the Middle East.

-Despite issues with the Egyptian Customs Authority and a publicized dispute over Turkish steel imports, bilateral trade continues to grow at a rapid pace.

-The GOE's practice of providing highly subsidized energy and strong support for the textile industry conflicts with the GOE's long-term goals of moving beyond garment exports and removing subsidies.

A Fast-Growing Market for Turkish Investors

2. (U) Turkish-Egyptian commercial relations have expanded rapidly over the past few years, and indications are that this trend is likely to continue. In a January 5 meeting, Turkish Commercial Counselor Gokmen Sahin told EconOffs that roughly 250 Turkish companies are operating in Egypt, with investments of \$1.5 billion. Turkish investment has more than tripled in the past five years; nearly 85% of Turkish companies operating in Egypt have been established since 2004, according to the Egyptian Ministry of Trade and Industry (MOTI). Sahin estimates that 40,000 Egyptians are employed in Turkish-owned factories around Cairo and Alexandria. Sahin said he expects Turkish investment to triple again soon, reaching \$5 billion in the next three years.

3. (U) Since the Turkey-Egypt free trade agreement (FTA) entered into force in 2007, bilateral trade volume has more than doubled, reaching its current level of \$3 billion. In a November 2009 conference on Turkish-Egyptian economic relations in Cairo, both Egypt's Minister of Trade and Industry Rachid M. Rachid and Turkish Foreign Trade Minister Zafer Caglayan expressed interest in tripling bilateral trade to \$10 billion in the next three years.

Low Costs and Solid Market Access Attracting Investors

4. (U) Sahin says that Turkish investors are attracted to Egypt in part because of low labor costs and subsidized energy prices. Even with labor inefficiency, Sahin estimates that low wages (about \$100/month on average for factory

workers in Egypt) save Turkish companies at least 30% in total production costs.

¶5. (U) Another major factor in spurring investment is Egypt's strong duty-free market access, such as that provided by its Association Agreement with the EU, the Qualifying Industrial Zones (QIZ) protocol with the United States, and the COMESA and Agadir agreements. Much of the Turkish investment in Egypt is concentrated in the textile and ready-made garments (RMG) sector. Sahin says that large American garment importers like Gap and Target have recommended that their Turkish suppliers consider relocating to Egypt to take advantage of both market access and lower costs.

¶6. (U) Manal Abdel Tawab, who manages Turkish investment in the QIZ Unit of MOTI, says that 11-12 Turkish-owned garment factories in Egypt are currently exporting to the U.S. through the QIZ program. She said, however, that she does not think Turkish investments in RMG will increase, but that Turkish investors are looking for other sectors in which to invest, such as durable goods. Sahin also mentioned that some Turkish companies are looking to invest in glass and electronics factories.

Trade and Customs Disputes Not Deterring Investors

¶7. (SBU) According to Sahin, Turkish businesses have reported problems with the Egyptian Customs Authority, including long clearance delays, inconsistent treatment of imports under the FTA, and a general problem of unskilled government workers. Despite this, Sahin says these problems are manageable and that customs issues have not dissuaded Turkish businessmen from investing in Egypt.

¶8. (SBU) Turkey's estimated \$2.2 billion in exports to Egypt in 2009 was driven by steel, leading to calls in Egypt to impose anti-dumping duties on Turkish steel imports. While the GOE's MOTI has announced it will study imposing such a measure, Sahin says that the high demand for steel in Egypt's booming real estate sector and the strong Turkish-Egyptian political relationship make the adoption of anti-dumping duties very unlikely.

Comment

¶9. (SBU) The rapid expansion in Turkish investment marks progress for the GOE towards its goals of increasing investment and trade ties with non-traditional partners outside of the EU and U.S. The attitude of Turkish investors on the economic potential of Egypt reflects positive strides made by the GOE in terms of increasing export market access and improving the investment climate. However, since much of the current investment attractiveness is driven by subsidized energy and the strength of the ready-made garments (RMG) industry, the GOE may struggle in the coming years to reconcile attracting foreign investors with its stated goals of reducing subsidies and broadening manufacturing exports beyond RMG.

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